

VZCZCXYZ0000
OO RUEHWEB

DE RUEHEG #5019/01 2261232
ZNY CCCCC ZZH
O 141232Z AUG 06
FM AMEMBASSY CAIRO
TO RHEHNSC/NSC WASHDC IMMEDIATE
RUEHC/SECSTATE WASHDC IMMEDIATE 0558

C O N F I D E N T I A L CAIRO 005019

SIPDIS

SIPDIS

NEA FOR A/S WELCH, NEA/ELA AND NEA/RA
NSC FOR ABRAMS

E.O. 12958: DECL: 08/15/2016
TAGS: [PGOV](#) [PREL](#) [ECON](#) [EAID](#) [EG](#)
SUBJECT: UPDATING BILATERAL ASSISTANCE TO EGYPT: EGYPTIAN
RESPONSE TO U.S. PROPOSAL

Classified by Ambassador Francis J. Ricciardone for reasons
1.4 (b) and (d).

Summary

1. (C) Ambassador, USAID Mission Director and Washington visitors met on August 2 with GOE Minister of International Cooperation Fayza Abounaga and other GOE ministers and officials regarding proposals to update the management of U.S. bilateral foreign assistance to Egypt. Abounaga labeled as "an indecent proposal" the U.S. memorandum to transform the assistance program into a cash transfer mechanism with disbursement conditioned on GOE completion of benchmarks in the areas of democracy and decentralization, human development, private sector development and science and technology. The Ambassador pointed out that the proposal was designed to support the GOE's own reform agenda and give the GOE greater control over how the assistance would be used, while sustaining accountability and improving results. Abounaga ultimately accepted the USG's proposed framework, while rejecting much of the specific content of the U.S. proposal, and promised a counter-proposal by the end of September. The U.S. visitors met separately with Mohamed Kamal, advisor to NDP Policies Committee Chair and presidential son Gamal Mubarak; Hala Mustafa, NDP Policies Committee member and editor-in-chief of Al Ahram's "Democracy Review"; and Ali Elmoselhy, Minister of Social Solidarity. End Summary.

AN "INDECENT PROPOSAL"

2. (C) On August 2 the Ambassador and AID Mission Director Ken Ellis led a delegation that included NSC Director for Democracy and Human Rights Pat Davis, NEA Senior Advisor King Mallory, and USAID Office of Middle Eastern Affairs Director David McCloud, in a discussion with the GOE on reshaping the administration of U.S. economic assistance to Egypt. Minister of International Cooperation Fayza Abounaga led the GOE side, which included Minister of Social Solidarity Ali Elmoselhy, Minister of Higher Education Hani Hilal, Minister of Education Youssry El Gamal, and senior staff from the Ministries of Finance, Trade and Industry, Foreign Affairs, Health and Population, and Planning and Local Development. Following previous discussions in March and a written GOE proposal in May, the U.S. had proposed for this round of discussions a draft MOU that would convert most USAID-managed ESF into direct cash transfers to the GOE budget. An initial disbursement would be made upon signing the MOU and further transfers would be contingent on GOE completion of benchmarks, proposed by the GOE and agreed to by the USG, in the areas of democracy and decentralization, human development and private sector development. The Ambassador had made clear that the format and process of the assistance program were the main focus of our proposal. Our ideas for specific content - in the form of "objectives," "items," and "benchmarks" - were meant to be illustrative. We had drawn them from the public statements of Egyptian leaders.

3. (C) Abounaga opened bluntly, calling the U.S. draft MOU an "indecent proposal." Abounaga at first completely avoided addressing the issue of procedural reform, targeting her outrage on the suggested reform benchmarks in the areas of democracy and decentralization. Calling the proposed benchmarks a "non-starter," Abounaga expressed "shock" at what she considered an intrusion into Egypt's internal politics. She also noted the difficulty of measuring political reform, stressing that benchmarks for cash disbursement had to be "objective" and not solely reliant on USG interpretation of compliance. She also expressed concern

about the timing of potential cash transfers, highlighting the importance of up-front money to ensure funds would be available to undertake reform efforts. The GOE delegation also complained that the draft MOU did not take into consideration GOE suggestions provided in writing last May for funding of specific programs in various GOE ministries.

14. (SBU) The Ambassador assured Abounaga that the draft MOU was not intended to be "indecent" but to serve as a starting point for how best to reform the implementation of our assistance and get better results for agreed U.S.-Egyptian objectives. The aim was to update a 30-year-old legacy process in a grand bargain reflecting vastly increased GOE and private sector capabilities. USAID aimed to diminish its selection and management of development programs - and thus diminish the size and cost of mission staff in Egypt - in

return for increased GOE responsibility for getting agreed, measurable results. On the democracy front, the U.S. wishes to support the GOE's own political reform agenda through the same results-based process, leaving the GOE to decide which outcomes it would seek and how it would achieve them, subject to our agreement to fund them. Acknowledging the sensitivity of "conditionality," the Ambassador said the USG had deliberately proposed a benchmarking process as a means to shift ESF to an outcome-based system. He emphasized that this would allow the GOE to take the lead on project design and implementation. The U.S.-Egyptian MOU on financial sector reform had proven the success of this "sectoral cash transfer methodology."

15. (SBU) Ellis and Mallory pointed out that it would be incorrect to characterize the proposed benchmarks as externally imposed &conditionality8, as it was the GOE itself that was being asked to propose the benchmarks that it would fulfill, subject only to USG agreement to fund the achievement of the results. Ultimately, by explicitly linking ESF cash transfers to the achievement of tangible results, the MOU would place full responsibility for management and use of ESF upon the GOE. Davis agreed that measurement of accomplishment of the democracy benchmarks should not be subjective, but should instead be based on international standards and commitments to which the GOE had already agreed. She noted that the Millennium Challenge Corporation serves as a successful model for measuring compliance.

BUT WE'LL THINK ABOUT IT

16. (SBU) By the end of the five-hour meeting, the GOE delegation accepted the format of the draft MOU, while harshly rejecting the specific proposed benchmarks for reform. Significantly, the GOE did not insist on excluding democratic reform from the ESF sectors that could be made subject to the proposed cash transfer methodology. Abounaga raised the possibility of linking the democracy benchmarks to a &Reform Fund8 that would constitute a separate agreement but follow the same format: some up-front disbursement to help initiate reforms, with further disbursements contingent on fulfilling democracy benchmarks. The U.S. delegation reaffirmed that the new procedure would provide for some funding to get projects started, but Congress is loathe to agree to establish separate named "funds." Abounaga promised an Egyptian counter-proposal based on the MOU's framework by the end of September at the latest and welcomed continued discussions in the interim. She promised that the Egyptian counter-proposal would include the four areas mentioned in the U.S. draft MOU (democracy and decentralization, human development, private sector development, and science and technology), but would also include a plan of action, and details on the timing of cash transfers. NEA Senior Advisor Mallory requested that the counter-proposal set clear objectives and meaningful benchmarks, as the U.S. Congress, which has final approval over disbursement of assistance, would look for concrete reform commitments when considering future levels of bilateral foreign assistance for Egypt.

ADDITIONAL GOE MEETINGS

17. (C) Davis, Mallory and McCloud, accompanied by emboffs, met separately with Dr. Hala Mustafa (NDP Policies Committee member, editor-in-chief of Al Ahram's "Democracy Review" and liberal activist). Mustafa related her deep skepticism that the proposed changes to U.S. assistance would make any tangible difference because "the regime will check the necessary boxes, but that does not mean any change will occur, as they will still maintain control ... this is Egypt!" She repeatedly cited the example of alleged increased press freedom in Egypt over the past year - "the government can point to increasing freedom of the press, but the reality is that the state of the press is worse than it has been in decades. Regime-supported and sponsored attacks

against reformers are the norm. Where is the real improvement?" Asked for suggestions on how to ensure that the MOU leads to concrete results, she suggested limiting and prioritizing the benchmarks as well as insisting on regular, six-month progress reports. To her, the priority should be changing laws governing political parties, civil society activities and the media. In addition, she also stressed the need for maintaining public pressure on the GOE to reform, stating that it was USG public pressure last year that

created the momentum for reform.

18. (SBU) Separately, Ali Elmoselhy, Minister of Social Solidarity, discussed the role of NGOs in Egyptian society and defended "Law 84," which governs NGOs, including charities. He argued that many NGOs are fraudulent and prey on the poor, so the GOE must actively intervene to ensure their proper functioning. The marketplace will not necessarily put bad NGOs out of business, and Egypt lacked a civil society that could police NGOs without GOE oversight. Elmoselhy agreed to receive USG comments on Law 84, which Davis promised to provide, and to work together on revising NGO legislation to bring it into compliance with international standards.

19. (C) The Washington visitors also met with Dr. Moamed Kamal, a close advisor to Gamal Mubarak, member of the NDP Policies Secretariat, and professor of political science at Cairo University. While holding that reforms are needed and that the NP Secretariat was reviewing democracy legislation in other countries, Kamal evinced clear discomfort with the concept of setting benchmarks in the democracy and governance fields. Observing that, "you don't want to get into micromanagement of the Egyptian political process," he noted that the reforms suggested in the draft MOU would be "extremely sensitive and difficult," would come up against "resistance," and could become "yet another irritant in the overall U.S.-Egyptian relationship." He urged that any benchmarks be "tied to general goals vice specific laws and initiatives ... the key is to make it as general as possible, with the timeframe and deadlines as flexible as possible." Kamal commented that, "it would be much less sensitive to have an agreement on technical assistance for specific issues (such as the new Anti-Terror Law), rather than setting deadlines."

10. () Davis and Mallory noted that the democracy and decentralization benchmarks in the draft MOU were drawn almost exclusively from President Mubarak's campaign promises and published NDP proposals. The democracy and decentralization goals and timelines suggested in the GOE's counter-proposal could be more general and flexible, as Kamal suggested, but they would have to pass the "smell test" with key members of Congress. A separate, more tightly-held MOU on democracy and decentralization was suggested as a way to minimize the possibility of leaks. Davis and Mallory repeatedly made it clear that the administration's ability to advocate for a robust multi-year ESF commitment to Egypt beyond FY 2008 would depend upon receiving significant and meaningful proposals from the GOE in the area of democracy and decentralization.

RICCIARDONE